

**Statement of
Hector V. Barreto
Administrator
U.S. Small Business Administration**

**U.S. House of Representatives
Committee on Small Business
Hurricane Katrina Relief Efforts**

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Good morning, Chairman Manzullo, Ranking Member Velazquez and distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's (SBA) Office of Disaster Assistance (ODA) efforts to provide relief to the victims of Hurricane Katrina.

Herb Mitchell, the Associate Administrator for Disaster Assistance, accompanies me today. Herb is a career SBA employee with over a decade of experience in our Office of Disaster Assistance. I want to tell you how happy I am to have Herb as our head of the disaster office; he is a man of experience, dedication and skill.

Herb and I were recently in Mississippi and Alabama, and previously we were in Louisiana and Texas. We learned firsthand the extent of the destruction caused by Hurricanes Katrina and Rita. In Gulfport, Mississippi I was shocked to see a beautiful city that had literally been flattened. Herb and I also met with the citizens, the homeowners and small business owners who were affected. We also met with our SBA disaster assistance employees on the ground and, I can tell you, I have never been more proud of the work we do at SBA.

I know, Mr. Chairman, that you want me to discuss prospective efforts in rebuilding the Gulf region and ways that SBA can help rebuild not just the homes and buildings but also the economy of the affected areas. However, I would like to touch upon the work being carried out by SBA since Hurricane Katrina hit.

Mr. Chairman, I know you met our disaster recovery center staff, led by Al Judd, and our displaced New Orleans District Office staff in Baton Rouge. They are just one of 33 disaster recovery centers in Louisiana. We now have 190 staff on site in Louisiana and more are going in as more disaster recovery centers are opened. In Mississippi, Alabama, and Texas, respectively, we have 254, 78 and 65 field staff on site. SBA has ramped up our Disaster Loan Processing and Disbursement Center staff in Fort Worth to over 1,000 employees. They have done an excellent job and are carrying on in the best tradition of federal service. In response to that, I am committed to offer them all the support they need to carry out the SBA's disaster assistance mission.

Before detailing SBA's expanded recovery efforts in regards to Hurricane Katrina, I think it is important to give some background on SBA's disaster programs. The SBA Disaster Assistance Program is the primary federal disaster-assistance loan program for long-range

recovery for private sector, non-agricultural disaster victims. Disaster loans are direct loans from SBA and eligibility is based on financial criteria. Interest rates fluctuate according to statutory formulas. Currently, the interest rate for loans for homeowners without credit available elsewhere is 2.687% and the rate for homeowners with credit available elsewhere is 5.375%. The vast majority, over 90 percent, of our disaster home loans are made at the lower interest rate. For businesses the rates are 4.0% and 6.557%, respectively, and again most are made at the lower rate. It is important that everyone understand that SBA disaster loans are not just for small businesses. In fact, the majority of SBA disaster assistance is directed to homeowners, to help rebuild their homes. Right now Katrina home loan applications outnumber business applications eight to one.

SBA has two kinds of business disaster loans. Physical disaster loans provide qualified businesses of any size that have sustained uninsured losses up to \$1.5 million with funds to repair or replace business property to pre-disaster conditions. These loans may be used to replace or repair equipment, fixtures, and inventory, and to make leasehold improvements. Economic Injury Disaster Loans (EIDL) provide up to \$1.5 million in working-capital loans for small businesses that suffer economic injury as a direct result of a disaster, regardless of whether the property was damaged. These loans are made to help small businesses pay ordinary and necessary operating expenses that they would have been able to pay if the disaster had not occurred. As a matter of course, SBA combines an EIDL loan with each physical disaster application.

The bottom line is that SBA's disaster loans help rebuild communities. SBA doesn't just help the small businesses, but their friends, and neighbors – their customers. Disaster losses are unexpected and create financial hardships for most disaster victims. Our disaster loans make recovery affordable through three factors: low interest rates, longer terms (up to 30 years), and refinancing under certain circumstances. SBA disaster loans are a critical source of economic stimulation in disaster-ravaged communities and help spur employment and stabilize tax bases by protecting jobs.

SBA responded immediately to the President's disaster declaration for Hurricane Katrina and continues to expand and increase assets to ensure that our delivery of disaster assistance goes smoothly. Recently, I visited our processing center in Fort Worth. We have expanded that facility by 40,000 square feet and added phone and computer connections to increase our capacity to process applications. To date, SBA has received a record number of referrals from FEMA – over one million. We have been sending out applications and are preparing to receive them back.

I would also like to address the press accounts of computer problems in the Office of Disaster Assistance (ODA). Nothing could be further from the truth. Our prior system, the Automated Loan Control System (ALCS), was cumbersome, unreliable, outdated and does not comply with current IT security requirements. The ALCS was not a loan processing system but a tracking system that interfaced with our mainframe to fund and disburse loans. A separate automated Loan Officer Report system was used for underwriting and operated on a different platform. Finally, we also used a legal document generation system that operated on a different platform. The technologies for all of these systems are outdated and inefficient. Last year in one

of our offices the ALCS broke down during the Florida hurricanes; and it took nearly a week to be repaired. The delay was due to the need for parts, parts for a system that was so old no one carried replacement parts. Faced with the possibility of future failures, SBA several years ago moved forward to build our new Disaster Credit Management System (DCMS) now being utilized for Katrina. The DCMS is a totally integrated web-enabled system that performs all of the necessary functions on one platform with the latest technology.

This system has been in use since November of 2004 and allows SBA to process loans electronically in a paperless environment. Processing and disbursement of disaster loans is now centralized in Fort Worth, Texas, with a back up processing location in Sacramento, California. Both locations have sufficient numbers of desktop computers to process and disburse loans. The DCMS is a "paperless," electronic loan application and loan process, which improves the processing of paper-based applications through imaging (scanning). This is a quicker, better process than before. Initial input of an application file takes only five to ten minutes. The application is started with "seed" data received from a FEMA download of teleregistration referrals to SBA. After entering completed loan applications into the DCMS, automated processes run and allow pertinent electronic data to be sent to our loss verifiers to perform an on-site inspection. While the loss verification is taking place any other documentation – business records, IRS files, and other information -- are scanned into the database in a parallel process saving time and making a complete electronic file available to any authorized system user at any location.

The loss verification process has also been substantially improved. In the past, our inspectors were required to travel to a central point to receive case file assignments and return completed inspections on a daily basis. We have equipped our inspectors with computer tablets which enable assignments from supervisors and completed inspections from the on-site loss verifier to be performed electronically. The computer tablets are also used to perform the inspection by capturing the loss data through a custom application designed by highly skilled loss verification staff. Inspection data entered by the loss verifier and sent electronically is used in the subsequent underwriting process and for the generation of loan approval documents.

In DCMS the scanned file creates a "virtual" loan process, making electronic loan files available for processing anywhere, by anyone, and at any time. An example of the improvement this creates is when an applicant calls asking for the status of a loan application. Now our call center staff can pull up the file and quickly inform an applicant of where the loan is and what information may be needed. This frees up our loan officers from having to answer routine questions so they can concentrate on finalizing loan decisions.

The DCMS improves SBA access to external data sources that provide credit reports, status of existing SBA loans, status of Federal debt, tax information from the IRS, duplication of benefits data from FEMA, and flood zone mapping with FEMA.

All of this is a vast improvement over our old system and we have used it successfully for over 18,000 applications. There have been some temporary problems in the affected area, but these are not related to the system. Rather the disaster environment itself poses several challenges which we are actively addressing. In many cases our staff is unable to reach homes

and businesses to verify the losses, or they are unable to contact the applicant to schedule the site visit with them. In order to alleviate some of that problem, I am pleased to inform you that SBA has obtained satellite imaging data and other ownership data that can help us verify damage as well as ownership and occupancy without going to the site. Although the person on the ground is still our best tool for verification, disaster victims will no longer have to wait for us to gain access to inaccessible areas.

ODA is staffed up to meet the demands of this disaster, and continues to hire. ODA is hiring temporary employees to verify losses, provide customer service to the victims on the phone and in the field, and process and disburse loans. ODA has over 2,200 disaster employees on board right now and we expect to hire approximately 2,000 more to meet the needs of those affected. By design, ODA staffs up to meet the needs of disaster victims when disaster strikes. This staffing up is transparent to disaster victims and saves taxpayers hundreds of thousands of dollars by keeping the staff low in times where little disaster activity is occurring. By way of example, we had approximately 800 employees ODA wide at the time of the Hurricane.

Our SBA ODA employees are now in over 50 disaster recovery centers and more are opening daily. At each of these DRCs, there are customer service representatives and loan officers providing Katrina victims with one-on-one assistance, issuing loan applications, helping to fill out applications, and answering program questions. They are also accepting completed applications, forwarding them to Fort Worth, and making follow up telephone calls to victims who have not returned their applications. We also are working with Mayor Nagin's office on a plan to establish a Business Assistance Center in New Orleans. As soon as the residents of New Orleans go home, SBA will be there to help them.

Herb and his staff have been doing a magnificent job. ODA has ordered equipment for and is training new field verification staff for Katrina as it would for any disaster but on a much larger scale. At the time Katrina struck, ODA had 300 computerized DCMS "tablets" on hand to meet the demands of regular and on-going disaster activity, including the immediate response to Katrina and has a contract with a vendor to provide more as needed. ODA immediately ordered more tablets and it now has over 1,000 tablets.

I would also like to discuss some of the other steps SBA is taking outside of our normal programmatic efforts. SBA is considering a number of efforts to assist small business outside of usual programs.

SBA has assigned four (4) Procurement Center Representatives (PCRs) to Katrina related contracting. Our Office of Government Contracting is meeting with Small and Disadvantaged Business Utilization (SDBU) officers from all major agencies to help focus on small business opportunities.

SBA is working with the General Services Administration (GSA) to establish up to date sourcing lists for small businesses and helping small businesses enter the Central Contractor Registration (CCR) database of small businesses available for contracting for reconstruction and clean up in Gulf region. Small business can call **1-800-FEDINFO** to register and find out about contracting opportunities. A customer service representative from GSA will field the calls and

direct each caller to the appropriate SBA district office nearest the caller's location. The SBA has designated personnel from each district office to respond to these inquiries and make referrals to the SBA's PCRs and others as necessary.

While the Administration's priority is always working to provide needed emergency services as quickly as possible, SBA is committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort. Let me just offer a few examples of the results of our efforts:

- The Army Corps of Engineers recently issued a 100% small business set-aside for Quality Assurance Services, a multiple award firm fixed price contract.
- They have also issued an 8(a) competitive contract action for multiple award roofing contracts, three contract awards anticipated at not to exceed \$50 million each.

I have signed an administrative notice for all SBA-serviced borrowers in the affected areas giving them up to a 12 month deferment of payments. In the same notice I also encouraged our lending partners to contact SBA and work with us to see what type of solutions we can find to assist them in working with their small business borrowers.

Our Small Business Development Center (SBDC) partners have also come forward in an exemplary fashion to assist with counseling and business development assistance for small businesses damaged by Katrina. We are working with them to enable them to provide services from neighboring states and across the country. To that end, I have authorized SBDCs to operate outside their states to help in the affected areas. SBA has also recently announced a new agreement with the Louisiana SBDC and efforts with the Mississippi SBDC to provide additional disaster business counseling.

Mr. Chairman, I would now like to discuss some of the proposals the Administration has put forth. SBA supports the President's goal of rebuilding not just New Orleans but the entire Gulf region devastated by Katrina. In the area that the President has designated Gulf Opportunity Zones (GOZones), SBA will have the following role:

Increase the maximum size of SBA business-related disaster loans from \$1.5M to \$10M.

SBA disaster loans to businesses for recovery activities are typically capped at \$1.5 million. The proposal would increase the limit to \$10 million for businesses that were adversely affected by Hurricane Katrina and are located in the declared disaster area. Raising this cap on loan size should help business activity recover more quickly by facilitating firms' access to low-interest loans to cover physical damage and economic injury.

Increase Disaster Mitigation Loans.

When providing a disaster loan for uninsured recovery costs, SBA can increase the loan amount by up to 20% so that the borrower can invest in disaster mitigation technologies such as storm shutters and floodproofing measures. The Administration proposes to raise the amount

that can be provided for disaster mitigation by basing the calculation on the total damage caused by the disaster loan. (For example, a business that receives \$100,000 of damage may have \$80,000 covered by insurance and \$20,000 covered by an SBA disaster loan. Typically, SBA's mitigation loans would be limited to 20% of the \$20,000. The Administration's proposal would raise eligibility to 20% of the \$100,000 damage -- in this case increasing by five-fold the amount of disaster loan lending eligible for mitigation.)

Increase the maximum size of Surety Bonds from \$2M to \$5M.

Small business often must secure bid and performance bonds in order to win contracts. These bonds assure the contractor's customers -- including those in the public and private sectors -- that the contractor has the financial capacity to perform the requisite work. The larger bonding limit would assist small businesses in the disaster area secure contracts, especially those related to reconstruction.

Provide 7(a) and 504 loan borrowers with options for deferring their principal and interest payments for a 12-month period.

In order to allow affected small businesses located in the disaster area to rebuild their enterprises and cash flow, the Administration supports providing borrowers with options to defer principal and interest payments on existing 7(a) and 504 loans for up to 12 months during FY 2006. Under certain circumstances, participating lenders and Certified Development Companies can make such deferral available to the borrower. Where a deferral is not available, alternative means of providing temporary relief to the borrower may be needed, and could include the issuance of an Economic Injury Disaster Loan for the working capital needs of the small business. Through these measures, borrowers could better regain their financial foundations. SBA is also deferring payments on certain agency-serviced business loans in the disaster area and has sent a notice asking our lending partners, where possible, to do the same for SBA business loans that they service.

Higher GOZone-specific 7(a) and 504 loan levels in FY 2006.

The current program authorizations for FY 2006 limit SBA's nationwide 7(a) loan volume to \$17 billion and 504 loan volume to \$7.5 billion. The Administration proposes to provide higher loan levels specifically for the GOZone area during FY 2006, thereby ensuring that lenders will be able to make small business loans in the area. GO Zone area limits will be \$10 billion for 7(a) loans and \$5 billion for 504 loans in addition to the levels already authorized for the regular programs.

Once Hurricane Katrina hit the Gulf Coast, SBA's ODA immediately began its outreach, as we do in all disasters. Immediately, ODA was in contact with our Regional Offices, SBDCs, and local community-based organizations. Our efforts have been hampered by the destruction but our efforts are progressing and I am pleased to report that we are serving those affected by this disaster well and have the manpower and technology to continue to do so. While SBA is continuing its traditional efforts to offer assistance to businesses and homeowners to rebuild we

also believe there is more that can be done to help reinvigorate and rebuild the economy in the Gulf Region.

Thank you, Chairman Manzullo and Ranking Member Velazquez, for affording me the opportunity to speak to you today about this very important topic. I look forward to answering any questions that you might have.